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The history of fiat money
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from 1620 to 1789.

BY

FRANK FENWICK MCLEOD,
Boston.

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The colonial treasury received very little coin, and the amount lessened every year proportionately to the assessed valuation.¶ Live stock and produce were received by the Massachusetts treasury at an early date. Horses, cattle and

* Massachusetts Records, Vol. iv, Pt. I, 247.

† Massachusetts Historical Collections, Vol. iii, p. 129. Governor Bradford's "History of Plymouth Plantation," p. 335.

‡ "Wonder-Working Providence," by Johnson, p. 109. Governor Bradford, *op. cit.*, pp. 104, 108, 127, 204; Massachusetts Colonial Records, Vol. i, pp. 1, 81, 336. Force Tracts, i, p. 6; New Hampshire Provincial Papers, Vol. i, p. 71. Winthrop's "History of New England," Vol. i, p. 43.

§ "Pathway to Erect a Plantation." Winthrop, *op. cit.*, Vol. i, p. 139. See W. B. Weedon's "Economic and Social History of New England," Vol. i, p. 129. A contrast of fisheries and furs. He says, "One partook of the departing barbarism, the other was a sure harbinger of the incoming civilization." Again, p. 18, he says, "Fish from the seas was the chief motor in starting the round of exchange."

¶ Massachusetts Colonial Records, Vol. iv, Pt. I, p. 198; Hull's "Diaries," pp. 179, 180, 190.

§ Massachusetts Archives—"Pecuniary," Vol. i.

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† Massachusetts Historical Collections, Vol. III, p. 129. Governor Bradford's "History of Plymouth Plantation," p. 356.
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|| Massachusetts Colonial Records, Vol. IV, Pt. I, p. 198; Hull's "Diaries," pp. 179, 180, 190.
¶ Massachusetts Archives—"Pecuniary," Vol. I.

sheep were turned over to the treasury. It was customary in the Plymouth Colony as early as 1628, when the surveyor ran the lines of a lot of land to compensate him with a peck of corn.* In the Massachusetts "Colonial Records" we find: "Sir Richard Saltonstall is fined four bushells of malte for his absence from Court" in 1630. Next year "Chickataubott is fyned a skyn of beauer for shooteinge a swine of Sir Richard Saltonstall." In the same year, "It is ordered that corne shall passe for payment of all debts at the vsuall rate it is solde for, except money or beauer be expressly named." This ill bit of legislation stamping as legal tender a product of variable value caused endless trouble for half a century or more.

Nathaniel Paine, in a paper read before the American Antiquarian Society of Worcester,† finds evidence of the existence of paper currency in Massachusetts as early as 1646. These paper bills were very probably issued by individuals of first rate credit, merchants or traders. Of their form and worth we know nothing, other than that they "passed in payment of debts." This note currency—a credit paper currency payable doubtless on demand—aided the colonists in settling local balances until the establishment of the Massachusetts mint at Boston in 1652.

Considerable trade was established with Spain and the West Indies by the year 1652.‡ At this time, too, the piratical operations of buccaneers or privateers of the Atlantic brought Spanish coin to New England and New York.§ Great Britain was at this time laying the foundation of a

* "Plymouth Colony Records."

† Council Report, April 27, 1866.

‡ Johnson, *op. cit.*, pp. 174, 208.

§ Weeden, *op. cit.*, Vol. I, p. 151; Bradford, *op. cit.*, p. 441. Bradford's "History of Plymouth Plantation" has recently been published by the State of Massachusetts in one volume and is sold at the office of the Secretary of the Commonwealth for one dollar. It contains a valuable index, together with a report of the proceedings incident to the return of the manuscript to Massachusetts. The history is embellished by photogravures and facsimile pages of the original manuscript. Massachusetts Colonial Records, Vol. II, p. 18.

policy by which she eventually got control of the world's commerce, taking it out of the hands of the Dutch. A principle of her policy which undoubtedly effected the course of hard money in New England was the parliamentary decree that no specie should be exported from the kingdom. Frequently the tradesmen at Boston sent remittances of specie abroad. This outflow necessarily impoverished the medium of trade at home. The matter of establishing a mint at Boston was agitated and brought to the attention of the legislature June 10, 1652, and power was given John Hull and Robert Saunderson: "for the melting, refyning and coining of silver." This mint continued operating until 1685, coining specie at about 22.5 per cent less than the standard value of old England. When the Massachusetts coin reached the London market the value was fixed as early as 1653 at a rate one quarter lower than theirs.* The twelve penny piece was the famous pine-tree shilling; it was the one-twelfth of a pound of \$3.33⅓, or three-quarters of the estimated pound sterling. The Boston financiers of the seventeenth century intended to make a coin which should be good bullion, but which should be, as the English pound sterling was forced by law to be, a coin that would stay in the country.

The coins which came from this mint were "two pence in a shilling of less valew than the present English coyne, and the lesser peeces proportionably."† Despite the efforts of the legislature to debase the currency, the precious coin found its way to foreign lands. The interests of trade and commerce, which had received an impetus for a time, very soon had to pay the cost of this novel experiment in finance.‡ It was the beginning of a mischief which proved an almost constant source of annoyance to the government

* J. B. Felt's "Historical Account of Massachusetts Currency," p. 31.

† Massachusetts Colonial Records.

‡ Massachusetts Archives—"Maritime," Vol. I.

and people, and which was increased as new enactments of the legislature and private banks sought to relieve the pinching wants of a people with a scanty and bedraggled medium of exchange.

The populace clamored for more currency. It mattered little to them whether the coin or paper money with the escutcheon of the government stamped thereon asked for was real value or some percentage of a unit of value. The coinage at the mint did not meet every demand. "Country pay" still continued to settle the accounts of the rural districts. In 1687 the public demand on Hingham was partly paid in milk pails.* For a long time the government received in payment of taxes whatever the colonist had to offer.† A discount from the usual rates was made to those who paid in coin. After 1680 the discount for specie was one-third. The authorities recognized the defects of the country pay system too well not to know that it was policy for them to give a liberal discount in favor of coin. Eventually the legislature of Massachusetts repealed the law which had occasioned so much loss to the colonial treasury.‡ Through the influence of the members of the general court, indulgencies were granted very generally to their constituents throughout the colony. The effect of this negligent policy upon the treasury was in every way disastrous.§ From the time the taxpayer deposited his grain and other products in the care of the local constable until the treasury actually received the cash realized from the sale of what was designated "specie," there was nothing but a succession

* Massachusetts Archives—"Usurpation," Vol. I.

† Massachusetts Colonial Records, May, 1698, say that no man should attempt to discharge his rates with *bank* cattle. *Boards* were accepted for taxes by the constable of Salisbury in 1657.

‡ Massachusetts Colonial Records, Vol. iv, pp. 2, 463.

§ "Financial History of Massachusetts," by Charles H. J. Douglas, Ph. D. This treatment by Dr. Douglas is especially good on the means and methods of taxation previous to 1789, and its application and relation to the "currency." The scope of his treatise includes banking and currency. A scholarly work, indispensable to students of New England finance and early currencies.

of deteriorations and losses.* From the scanty figures preserved in the treasurer's records, it appears that from January 1, 1689, to April 17, 1689, a period of three and one-half months, the losses to the treasury from the sale of 9977¾ bushels of grain were no less than £99 1s. 3d., or at a rate of nearly £400 per year. The loss connected with country pay currency was only a logical sequence of the system which stamps as money any commodity of variable value.

The inter-colonial war between the possessions of France and England involved the province of Massachusetts Bay in serious financial difficulties.† The expedition against Canada in 1690 was a failure. To provide for the payment of the soldiers and *sundry considerable debts*‡ the government had recourse to an expedient which proved fruitful of mischief to the colony through two generations.§ December 10, 1690, the government of Massachusetts ordered the emission of "the first bills of public credit known in the American colonies." These treasury notes or bonds issued with the function of circulation were declared to "be in value equal to money, and were to be accordingly accepted by the Treasurer and Receivers subordinate to him in all public payments and for any Stock at any time in the Treasury."|| The Colony of Massachusetts assumed the office and obligations of a "bank of credit." The colony virtually went into the banking business by anticipating the taxes with bonds which were to serve the people as "paper money"—the first paper currency in this country. The first issue of these bills was limited to £7000. Another installment was ordered February 3, 1691. Some time in May of the same year, the General Court¶ ordered that the

* Felt's "Massachusetts Archives," Vol. c, p. 441; also p. 259.

† Massachusetts Province Records.

‡ Ibid.

§ Falfrey, Vol. iv, p. 58.

|| Massachusetts Colonial Laws.

¶ Massachusetts Province Records.

bills out and to be emitted should not exceed £40,000. Undoubtedly this action was taken by the legislature to assure the people that the "paper money" was as good as "stamp silver" and certain of redemption since they were receivable for treasury dues.* The paper currency of the government did not circulate very freely. The soldiers who received the bills at par were unable to get more than twelve or fourteen shillings a pound for them in trade. Very naturally these government bills increased in value in the hands of the taxpayers as the time for the payment of taxes drew near. Meanwhile the soldiers† lost about one-third of their scanty pay in discounts, or more properly speaking depreciation from lack of confidence in the credit of the colony. To facilitate the movement of exchange and elevate the colonial and provincial evidences of debt to the dignity of fiat money the General Court ordered in 1692:

"that all Bills of publick creditt, issued forth by order of ye Generall Court of ye late Colony of ye Massachusetts Bay, shall pass current within this Province in all payments equivalent to money and in all publick payments at 5 per cent advance."‡

The inducement of a bonus on the bills of the government payable by a discount on the taxes to those who favored the government with patronage and moral support had a goodly effect on the government securities at times. When the taxes were due the bills were worth more than hard money. For nearly twenty years these legal tender bills of the province of Massachusetts Bay passed with nearly the same freedom as silver, though occasionally the public confidence wavered.

The bills of credit, which very soon became the ruling force in trade, were redeemed yearly by the government until 1704, when the General Court voted to extend the

* Weeden, *op. cit.*, Vol. 1, p. 329, says: "Inflation of the currency has frequently assumed these deceptive forms and appeared in this specious guise whenever the restless debtor has found his burden oppressive."

† Boston Athenæum Tracts, c, 55; c, 62.

‡ Massachusetts Archives—"Pecuniary," Vol. 1

time of redemption by taxes to two years, afterwards to a longer period, and finally to thirteen years. Up to 1702 there had been emissions of about £110,000.* "Bills of this period continued at the rate of six shillings, a heavy piece of eight, and were called Old-Charter bills, because they were issued before the second Charter of William and Mary."† In 1702, another emission of £10,000 was ordered by the court.‡ This was supplemented by other issues annually to be cancelled by the taxes until 1704. The issues in the next few years were as follows: 1706, £10,000; 1707, £22,000; 1708, £10,000; 1709, £60,000; 1710, £40,000; 1711, £65,000—a total of £207,000. Next year the province bills were made legal tender. After 1707 the volume of bills grew larger with every emission and now assumed the proportions of an inflation. Meanwhile the royal government limited the operations of the General Court and placed the period of redeeming tax bills to the year 1747. Further emissions were forbidden, except by acts subject to the king's approval before they should take effect, unless all outstanding bills should have been redeemed.

A rather rare pamphlet, published in Boston in 1749, reviews the subject of paper money in this language:§

"Which not being very considerable, and the bills having a preference in the Treasury to silver, kept up their credit until about the year 1711, when such large sums were issued that silver began to be hoarded by some, and exported by others in large quantities and the bills became the only means and instrument by which private trade and dealing were regulated and managed. And to confine the currency of the bills, and effectually to banish silver and gold, the Massachusetts Province, in the year 1712, made their bills a tender in the discharge of all debts unless there appeared a special agreement or contract otherwise."

This is the story of a legal tender inflation in operation.

* Massachusetts Province Records, Dec. 18, 1739.

† Paine's Council Report, American Antiquarian Society, April, 1866.

‡ Acts of Massachusetts.

§ "A Brief Account of the Rise, Progress and Present State of the Paper Currency of New England." Boston, 1749.

The law of exchange is just as exact and inevitable as any of the laws of dynamics. It is, as the essayist says above: "To confine the currency of the bills (*i. e.*, the currency of inflation or cheap money) and effectually to banish silver and gold." This is history.

Just prior to the period of inflation, the people's confidence in the credit of the province was considerably shaken. The decline in the value of the government paper rapidly increased. In 1710 an ounce of silver was worth eight shillings in paper.* In 1727 it had risen to seventeen shillings. Connecticut†, New Hampshire‡ and Rhode Island issued bills of credit to defray the public debts and charges of the government. The experiences of these Anglo-American colonies with treasury bills had a marked bearish effect on the currency of the Massachusetts province.§ Rhode Island was particularly unfortunate in financial ventures, causing a large pecuniary loss to the holders of her bills in Massachusetts.|| It is obvious that the New England currency issued by the local governments early in the eighteenth century was merely a forced credit with no other security than the good-will and the chance of future prosperity of the government. Barring Connecticut¶ with an issue of £33,500 of bills which were redeemed with little or no depression, most of the New England monetary kites never found the haven of redemption. The following is a brief reference to the period ranging from 1691 to

* MS., Robert Hale Beverly, about 1720, American Antiquarian Society, "Of the Exchange of Coins." Also Suffolk Probate Records.

† New Haven Historical Collections, Vol. I, pp. 50, 52; Connecticut Colonial Records, 1718, 74; Trumbull "Connecticut," Vol. p. II, 47; Bronson's "Connecticut Currency," p. 30; Colonial Records of Connecticut, 1706-16, p. 111.

‡ New Hampshire Provincial Papers, Vol. II, p. 733; Vol. IV, p. 685.

§ Rhode Island Colonial Records, Vol. v, pp. 10, 11; Potter and Rider, Rhode Island Tracts, No. 8, pp. 11, 16, 81.

|| Weedon, *op. cit.*, p. 481; Massachusetts Archives—"Letters," Vol. II; Massachusetts Provincial Records.

¶ Connecticut Colonial Records, 1706-16, p. 111.

1714, by an historian* who acquired considerable fame in financial problems:

"So many bills had been issued for the charges of the war, particularly the large sum of forty thousand pounds, issued for the Canada expedition, that they were become the sole instrument and measure of commerce, and silver and gold were entirely banished. Of two instruments, one in use in a particular State only, the other with the whole commercial world, it is easy to determine which must leave that particular State and which remain. The currency of silver and gold entirely ceasing, the price of everything bought or sold was no longer compared therewith, but with the paper bills, or rather with mere ideal pounds, shillings and pence. . . . It was thought that increasing the paper bills would enliven and reform the trade."

The Solons of the provincial period lacked experience and a knowledge of the practical working of financial systems. They had many thoughts, but few ideas. Early in the eighteenth century "silver and gold were entirely banished" from Massachusetts. Cotton Mather, who believed in the bills of credit, speaks of "there being Forty Thousand pounds, more or less, now to be paid, and not a Penny in the Treasury to pay it withal."† This was in 1697.

The paper bills‡ of Massachusetts were at a low ebb in 1714. There was a general scarcity of money and a universal cry for more currency. The medium of exchange furnished by the government was so uncertain that the public mind sought relief from past anxieties. The issues of bills by the General Court having been restricted by the royal government, the money question again occupied the serious attention of the citizens. The unhappy experience with the province bills persuaded many that it would be well to abolish paper money and use only specie for future transactions. Others devised a plan by which the province

* Hutchinson's "Massachusetts," Vol. II, pp. 187-88.

† Magnolia Book, Vol. II, App.

‡ For a history of the currency, and for its literature, see "Narrative and Critical History of America," Vol. v, pp. 170-77.

was to loan to the people, on interest payable annually. In this cauldron of finance, the faction which created the greatest commotion was the land bank party.* They desired to do business on the basis of a "Land Security as a Fund for Bills and Notes to be Circulated."† The agitation by the private bank advocates virtually compelled the General Court‡ to issue a loan of £50,000 in bills of credit to the people at 5 per cent per annum, one-fifth of the principal to be paid annually.§ This measure of the government virtually established a public bank which loaned bills of credit on mortgages of land. The business interests soon felt the want of a larger circulation. Their demands were temporarily appeased by a loan of £100,000 in 1716, secured by mortgaged estates of double the value of the sum borrowed for ten years at 5 per cent annually.|| The income from this issue of paper bills was to aid the government in liquidating public charges. When the period of redemption lapsed the bills were to be retired and burnt. The emission of this batch of government obligations depreciated the currency still more. A part of this loan was still in circulation in 1739.

A considerable portion of the people was favorably impressed with the private bank scheme which was advocated by the financiers, who were trying to grope their way out of the difficulties into which the legislators had led them. After 1714 the idea of a private bank scheme found a welcome in the minds of the people. It grew in popularity because its proposed function was simply to issue a circulating medium. The impression current in the trades circles was favorable to any emission of paper currency whether it had the seal of the province or of a private corporation. The public felt morally certain that the prosperity

* Boston *News Letter*, No. 512; issue of August 20 and August 23, 1714.

† "A Vindication of the Bank of Credit," published December, 1714.

‡ Massachusetts Provincial Records.

§ Paul Dudley's "Objections to the Bank of Credit," etc., 1714, pp. 18, 31.

|| General Court Records.

of the province was proportionate to the volume of currency in circulation. "Considering the demand of the Government as to their taxes and the great occasions of the People as to their trade"* more money of some kind was necessary to facilitate trade and commerce. But the one great principle of redemption for all paper currency in specie of intrinsic value was a conception they did not grasp. Hence every effort made to relieve the burden only tightened the ligatures of a cheaper fiat money. Those who possessed the precious metal knew its value. An early eighteenth century writer remarks:†

"Men are very loth to part with this charming Specie. And tho' it may go from them with less pain than when their Skin is stripped from their Fingers, yet it comes away with much aversion."

This observation made by a leading citizen of the time when fiat money was forced upon the people with no provision for redemption in specie, illustrates a condition which, in the very nature of things, must ever exist when an unknown quantity is offered in exchange for a fixed value. A writer of the time, Mr. Wise, of Chebacco,‡ discussing the ubiquitous problem "How Shall We Keep up the Value of our Bills of Public Credit?" in a pamphlet styled "A Word of Comfort"§ offers an ingenious argument in support of the bills of credit:

"Gentlemen! You must do by your Bills, as all Wise Men do by their Wives; Make the best of them. It is an acknowledged Theorem, that there is no doing without Wives. The Lonesome and sower Philosopher would frankly confess that Women were necessary Evil. . . . The great Skill is to cultivate the necessity and make it a Happiness; for that end, Wise Men Love

* Dudley, *op. cit.*

† Rev. John Wise—"The first logical, clear-headed American Democrat."

‡ Now Essex.

§ "A Word of Comfort to a Melancholy Country. Or the Bank of Credit Erected in the Massachusetts-Bay, Fairly Defended by a Discovery of the Great Benefit, accruing by it to the whole Province; With a Remedy for Recovering a Civil State when Sinking under Desperation by a Defect on their Bank of Credit." By Amicus Patriæ. Boston. Printed in the Year, 1721, 16mo. pp. (1930) 58.

their Wives; and what ill-conveniences they find in them they bury; and what Vertues they are enrich't with they Admire and Magnifie. And thus you must do by your Bills for there is no doing without them; if you Divorce or Disseize yourselves of them you are undone; Therefore you must set them high in your Estimation; and be no ways Prodigal of their Reputation, so as to vilify or run them down; as tho' they had more mischief than Good in them."

The learned writer of this disquisition saw the needs of the people, recognized the conditions, but failed to point out the needed application. A Virginian writer* very early in the century seemed to have touched upon the source of these financial ills in writing to a correspondent in London on the subject of "reducing all the Coynes of America to one standard." He says: "Which standard, I humbly conceive, shall be as near the intrinsic value of sterling as possible." This bit of advice, which has the essence of wisdom in it, was thrust into the shadows by the luckless time-spirit. The colony's finances were wrestling on the brink of disaster, where every struggle served but to force them further toward the abyss of ruin.

The much desired inflation of the currency produced by the issue of £100,000 in 1716, had the same effect in forcing the hard money out of the community† as any law which creates a twofold currency one of universal and intrinsic value, the other of local value will always have. A writer on the "Melancholy Circumstances of the Province," reviews the situation in the usual lugubrious strain:

"All the silver money which formerly made payments in trade to be easy, is now sent into Great Britain to make returns for part of what is owing there. We have been so deficient in farming and managing our own manufacture, lived so much above our abilities, spent so much of our imported commodities, that our money is gone, there is scarce a penny of it passing for a twelve-month."

The law of natural selection was in operation in the finances of New England before the law itself was known

* Cited by Felt in "Massachusetts Currency."

† "Distressed State of the Town of Boston Considered."—*Boston News Letter*.

to exist. The bills of credit remained at home at a discount. About the year 1720, a contemporary writer* shows us the status of affairs after the bills of credit were issued by the government.

"As to silver and gold we never had much of it in the country; but we can very well remember, that before we had paper money, there was a sufficiency of it current in the country, and as the bills of credit came in and multiplied, the silver ceased and was gone."

Testimony of this nature, confirming the degeneracy of the financial policy which robbed the community of its specie, may be found in abundance in the numerous writings of the essayists of the first half of the eighteenth century.

The efforts of the crown and the representatives of England in the province failed to check the declining credit of Massachusetts. In 1720 the 5 per cent advance added to previous issues to maintain the bills at par was dropped. The premium failed in its purpose. The old custom was revived by the government of making a partial currency of produce. This lasted until 1723.† In 1721 there was another emission of £50,000 of bills by Massachusetts. The charges of the government were very much increased at this time by the Indian war. Silver rose until 1726, when the emissions became equal to the cancelings. The act of 1727‡ regulated the price of silver for obligations previously contracted. It fixed the value at 8s. for 1710, 1711; at 8s. 6d., 1712, 1713; at 9s. for 1714, 1715; at 10s. for 1716, 1717; at 11s. for 1718; at 12s. for 1719, 1720; at 13s. for 1721; at 14s. for 1722; at 15s. for 1723; at 17s. for 1724-27. This value set upon silver was measured by the paper money in circulation. In reality the silver had not appreciated in value, but the bills had depreciated. It was

* "A Countryman's Answer to the Letter" (i. e., "Distressed State of the Town of Boston").

† Massachusetts Provincial Records.

‡ Acts of Massachusetts.

silver going up in the sense that we saw gold going up in the sixties. The actual inflation which began in 1712 and 1713 at once raised prices in all commercial transactions. A natural result. The paper money was constantly depreciating in value and more of it was needed to make a purchase, hence the increase in prices. To enforce the circulation of the bills, laws were enacted which made the bills legal tender. Then reluctant debtors delayed more, to avail themselves of the advantages which the steady depreciation in the bills brought with the lapse of time.

The movement of paper money in Rhode Island issued against public credit was not in line with public confidence. The emissions* of 1710 and 1711 were issued to meet current charges. The "bank" of £40,000 in 1715 was followed by nine others of infamous memory. In 1750, when the last bank of loan of the public credit to individuals was made, the British government peremptorily called a halt. Up to 1733 the Rhode Island bills circulated at about the same credit as the Massachusetts bills.† The decline in value of the Rhode Island bank was continuous.

New Hampshire issued banks at 5 and 10 per cent interest.‡ "Private gentlemen" planned an inflation of the currency for which the populace clamored.§ Connecticut bills passed at about the same discount as the Massachusetts currency. The more conservative financial policy of Connecticut doubtless moved an association of influential citizens in 1630, known as the New London Society for Trade and Commerce|| to circulate their notes for a period of about two years, when their career was cut short by a

* Rhode Island Colonial Records, Vol. v, p. 9.

† In Weeden's "Economic and Social History of New England," there is much valuable comparative matter on finance and currency. Caps. ii, viii, xiii, xvii, xxi. His sense of proportion and wide search for data on all collateral subjects associated with the currency, make his work exceptionally valuable.

‡ New Hampshire Provincial Papers, Vol. III, pp. 671, 688.

§ *Ibid.*, Vol. iv, p. 685.

|| Henry Bronson's "Historical Account of Connecticut Currency," in the New Haven Historical Society Papers, Vol. I, pp. 42-43.

legislative enactment.* This private experiment at inflating the currency cost the people considerable money and virtually compelled the provincial authorities to issue more bills of credit to replace the exchange retired by the New London Society. Private schemes to enlarge the currency proved futile. The little matter of redemption was fixed for a time twelve years in the future when the price of silver was just twice as much as at the time of issue. Practically speaking, had the society continued business it might have redeemed its bills at 50 per cent on the face value—the result of an inflation of the currency.

Judge Sewall, of Massachusetts, makes this conscientious memorandum in his diary: "The diminution of the value of the bills of public credit, is the cause of much oppression in the Province."† Governor Belcher, of Massachusetts, complains in his messages, 1734, that the bills of the province read "equal to money," yet "16s. worth will not purchase 5s. lawful money."‡ In his message to the legislature he recommended to that body, "not to suffer an emission of any sort of notes or bills for the future, but such as will instantly and at all times honestly and truly command the value expressed in them." The masterly manner in which Governor Belcher reviewed the financial situation, pointed out the fallacies of inflation and exhorted the legislature to "apply a speedy remedy" will ever be a subject of praiseworthy comment. He seemed to grasp the needs of our degenerate currency system quite as well as his colleague Hutchinson. Together they fought a scrupulous battle for sound money.

The bills of a certain private bank and merchants' notes issued in 1733 at Boston added to the depreciation of the province bills. The Land and Manufacturers' Bank§ was a project which aimed to convert credit based for the most

* Colonial Records of Connecticut, 1733, p. 421; 1735, p. 15.

† Judge Sewall's Diary.

‡ Governor Belcher's Speech.

§ *Felt, op. cit.*, pp. 102-105.

part on land security into money redeemable in twenty years by merchandise or produce at an arbitrary price. This private corporation was a revival of the land bank idea of 1714. In 1740 this institution issued and loaned about £35,000 which circulated as money. The government was restricted from issuing any more bills of credit, as there were £210,000 in circulation,* redeemable in 1742, but no royal charge had been received interfering with the operations of a private bank. The time limit fixed for the redemption of the province bills was the year 1742. A number of prominent men, fearing that there would be a contraction of the currency when the province bills should be redeemed, organized the Land Bank to supply a medium of exchange. The mercantile community and a majority of the representatives in 1740 favored the scheme. Edward Hutchinson was the father of another private enterprise which issued paper money redeemable in fifteen years in silver at 20s. an ounce. The bills were denominated merchants' notes. This specie issue was called the silver scheme, and was looked upon by the governor and council with less disfavor than the Land Bank. Private banks received a check by act of parliament early in 1741. The specie Paying Bank placed the limit of its bills at £120,000.† The bank enjoyed public confidence because the bills read redeemable in silver. The restrictive measures of parliament precipitated the affairs of the Land Bank into the hands of a commission.‡ Nearly every responsible director was ruined by its failure, since every director was held accountable for the payment of bills which were circulated by the bank with interest. The affair caused no end of trouble, turmoil and disaster, and dragged on for nearly thirty years.§ The investors lost heavily. Former emis-

* Massachusetts Provincial Records.

† Proceedings of Massachusetts Historical Society, 1860, p. 124.

‡ Hutchinson's Diary, p. 51.

§ Governor Belcher's Correspondence, in Library of Massachusetts Historical Society.

sions of province bills were not redeemed in 1742 owing to bad finances and a change in the royal executive.

To facilitate matters Massachusetts attempted to regulate the fluctuating currencies by an equity bill which became law in 1742.* This was another attempt to rejuvenate fiat money and electrify the province bills with purchasing power equal to coined sterling silver. There were in circulation in Massachusetts at that time "public bills"—old tenor—of four provinces at 29s. per ounce of silver; new tenor of Massachusetts at 6s. 8d., but current at 9s. 8d.; Connecticut at 8s.; Rhode Island at 6s. 9d. There were still bills in circulation, a parcel of £110,000 of "silver money scheme or Merchants' notes," issued in 1733, which being redeemed in specie passed at 33 per cent better rates than province bills.† The silver bills of 1740 circulated to the amount of £120,000. Silver and gold did not circulate much, for when they drifted into the channels of commerce they were sent to England.

This fluctuating and complicated currency retarded business and crippled commerce. Ships, the building of which was the chief industry of New England, were lying in dry dock. Inflation was triumphant, business paralyzed. Peter Faneuil wrote his English correspondent in 1736:

"You will see by these Acc'ts. how dear build'g is: it is much cheaper to buy Vessels in the river of Thames than to have them built here for the Present."‡

A little later in 1741, exchange between sterling and Massachusetts paper was 450 per cent; necessarily creditors suffered much. Inflation invariably reduced the burdens of those who lived by credit at the expense of the creditor. Paralysis of business is the natural result of such conditions

* Acts of Massachusetts.

† A Merchant's Letter. Cited by Felt, p. 107; also see Caulkins' Norwich, p. 293.

‡ Peter Faneuil, March 22, 1736; Letter Book at New England Historical and Genealogical Society. Cited by Weedon, p. 484.

of inflation, and the logical sequence of inflation is repudiation. In the end the credit of the government is ruined and the people robbed. The bullish activity in the currency reached the limit of expansion in 1745. The government resorted to a lottery as a means of raising funds, some £7500, to meet the demands of the famous Louisburg expedition.* This was a logical corollary appended to the problem of inflation.

In 1749 the British government sent over to Massachusetts 653,000 ounces of silver and ten tons of copper to be applied to the redemption of the province bills.† This specie remittance saved the credit of the province. In June, 1751, £1,792,236 of public notes were redeemed in specie at the rate of one in specie to ten in paper. The miserable chimera of inflation, which began early in the century, developed in 1750 into a huge hydra which, through the intermittent stages, robbed the people of 90 per cent of the face value of the provincial output current at the time of redemption, besides arresting commerce and retarding the industrial interests of the community. Specie, which occasionally came into the province through the channels of commerce with Spain and the West Indies, was regularly transmitted to London. A magnet on the other side of the water—called the balance of trade—set the specie in a motion which reminds one too forcibly of perpetual motion. The inflated money oscillated within the sphere of its jurisdiction and never visited foreign lands.

The finances of the province of Massachusetts were in a needy condition very soon after the work of redemption was completed. In 1756 the province received £54,000 for past services against the French. The next year a grant of £27,380 was made by parliament and subsequent remittances to the province by parliament gave to the province the name of the "hard money colony." The old province

* Acts of Massachusetts.
† Massachusetts Provincial Records.

bills had scarcely been redeemed in specie when the people again called for more paper bills. The experience of the past was not enough. Hutchinson tells us that:

"A great cause of prejudice against the redemption of paper currency and its cessation was that those who depended on their labor for support, suspected, that while the wealthy would hoard up the silver and gold, they should have none of it, and should be worse off than under the system of Province banking."

To meet the wants of the treasury and supply the crying need—a medium of exchange—the General Court of Massachusetts issued in 1755 interest-bearing treasury notes for money borrowed on account of the province.* This course was continually followed by the government until the Revolution, when the practice was resumed under a different administration. These treasury notes were not legal tender yet they passed quite generally in trade. In Rhode Island inflation was carried to a greater extreme than in Massachusetts. By her currency dissipation Rhode Island† lost most of her trade and commerce, which up to the middle of the century was especially large. Rhode Island had issued about £165 in paper per capita. This entirely deranged business for a time and precipitated some of the leading merchants into bankruptcy. The first act of bankruptcy was passed for the especial benefit of Joseph Whipple of Newport, then a great commercial centre.

To-day gold is generally preferred to silver. In 1762 the people strongly opposed the government when it was proposed to make gold a standard equal to silver.‡ Strangely enough Mr. Hutchinson shared the fears of the many. When the province changed the form of its notes in 1762 gold became legal tender. Frequently the government defaulted on its interest or prolonged the date of payment. Such measures naturally impaired the credit of the province

* Journal of the House.
† Rhode Island Historical Tracts, Vol. viii, pp. 66, 67.
‡ Journal of the House.

notes. The New England provinces were in a weakened condition financially. Louisburg and Quebec had been captured. The effect of inflation was like a fever which leaves the patient with protracted ills. The depreciated bills of other New England provinces circulated under legislative protest in Massachusetts. As these bills were not redeemed by the specie received from England by the provinces, there was a plethora of them. During the period when the province of Massachusetts borrowed money from the people and did not make its obligations legal tender it had a larger prosperity as a community than when the phantasmagoria of inflation was dominant. Governor Hutchinson says in 1774: "There never has been a time since the first settlement of the Country, when the Treasury has been in so good a state as it now is." The year 1775 witnessed the revival of paper money as a legal tender by authority of the provincial congress. The nature of this currency was akin to the old bills of credit which seemed to have bequeathed to the new currency the destiny of fate. The whole system of fiat money fell by its own weight in 1778. Mr. Jonathan Amory, the great Boston merchant, says, December 16, 1780: "Everybody asks silver or gold or paper, as they please, paper having been for a considerable time at 75 per cent; goods bring three for one." The depreciation in fiat money was almost a constant factor in the finances of the continental times. Jonathan Amory says: "A good proportion of the money I took for debts was not worth one-third, and before I had a chance to lay it out, perhaps not one-sixth of what I had taken it for." The uncertainties of a fluctuating currency are always hazardous to business. In May, 1781, the continental currency had depreciated to five hundred to one of hard money. At this time the citizens of Philadelphia decorated themselves with paper dollars in the form of cockades and paraded the streets with a dog, tarred, his back covered with congress paper dollars. This incident marked the

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downfall and inglorious defeat of the united efforts of the continental congress in support of a fiat currency.

A retrospect of the currencies of New England prior to the organization of the federal government reveals only overcasts and shadows. Weeden* says:

"With the forecast of genius, they [*i. e.*, Potter, author of "Key to Wealth," and Gov. John Winthrop of Connecticut] struck at the essential nature of a currency, which is the exchange of values through the medium of a bill. Their ideas were crude, their methods were incomplete. Their plans, such as they were, never came to pass; yet they opened the way for a currency. The path has led through dark jungles and tangled swamps; it has sent off many byways into the morasses of bankruptcy and repudiation. Danger and toil have always attended the explorers in finance, and they always will. Nevertheless the path is the way of civilization. The greater the development of civilized life, the larger will be the values in paper and credit."

The pathway to our present monetary standard is lined with the wrecks of different forms of currency, country pay, debased coinage of the Boston mint, credit bills of the Colony of Massachusetts, fiat money of the Province of Massachusetts Bay, legalized fiat money, inflated currency, land bank bills, silver notes, treasury notes, continental currency. Each form of currency, the product of necessity, relieved the wants of trade for a time, but periodically the support gave way and each had been leaning on a reed.

Fiat money means degeneration; degeneration precipitates inflation; inflation culminates in repudiation.

FRANK FENWICK McLEOD.

Boston, Mass.

* *Op. cit.*, Vol. I, p. 324.

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